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PRIVATIZATION VS. GOVERNMENT OWNERSHIP

Airport Congestion— A Case of Market Failure?

Murray N. Rothbard

The press touted it as yet another chapter in the unending success story of “government-business cooperation.” The traditional tale is that a glaring problem arises, caused by the unchecked and selfish actions of capitalist greed. And that then a wise and far-sighted government agency, seeing deeply and having only the public interest at heart, steps in and corrects the failure, its sage regulations gently but firmly bending private actions to the common good.

The latest chapter began in the summer of 1984 when it came to light that the public was suffering under a 73% in-

crease in the number of delayed flights compared to the previous year. To the Federal Aviation Agency (FAA) and other agencies of government, the villain of the piece was clear. Its own imposed quotas on the number of flights at the nation's airports had been lifted at the beginning of the year, and, in response to this deregulation, the short-sighted airlines, each pursuing its own profits, over-scheduled their flights in the highly remunerative peak hours of the day. The congestion and delays occurred at these hours, largely at the biggest and most used airports. The FAA soon made it clear that it was prepared to impose detailed, minute-by-minute maximum limits on takeoffs and landings at each airport, and threatened to do so if the airlines themselves did not come up with an acceptable plan. Under this bludgeoning, the airlines came up with a "voluntary" plan that was duly approved at the end of October, a plan that imposed maximum quotas of flights at the peak hours. Government-business cooperation had supposedly triumphed once more.

The real saga, however, is considerably less cheering. From the beginning of the airline industry until 1978, the Civil Aeronautics Board (CAB) imposed a coerced cartelization on the industry, parcelling out routes to favored airlines, thus severely limiting competition, and keeping fares far over the free-market price. Largely due to the efforts of CAB chairman and economist Alfred E. Kahn, the Airline Deregulation Act was passed in 1978, deregulating routes, flights, and prices, and abolishing the CAB at the end of 1984.

What has really happened is that the FAA, previously limited to safety regulation and the nationalization of air traffic control services, has since then moved in to take up the torch of cartelization lost by the CAB. When President Reagan fired the air-controllers during the PATCO strike in 1981, a little-heralded consequence was that the FAA stepped in to impose coerced maxima of flights at the various airports, all in the name of rationing scarce air-control services. An end

of the air-controller crisis led the FAA to remove the controls in early 1984, but now here they are, more than back again, as a result of the congestion.

Furthermore, the quotas are now in force at the six top airports. Leading the parade in calling for the controls was Eastern Airlines, whose services using Kennedy and LaGuardia airports have, in recent years, been outcompeted by scrappy new People's Express, whose operations have vaulted Newark Airport from a virtual ghost airport to one of the top six (along with LaGuardia, Kennedy, Denver, Atlanta, and O'Hare at Chicago). In imposing the "voluntary" quotas, it does not seem accidental that the peak hour flights at Newark Airport were drastically reduced (from 100 to 68), while the LaGuardia and Kennedy peak hour flights were actually increased.

But, in any case, was the peak hour congestion a case of market failure? Whenever economists see a shortage, they are trained to look immediately for the maximum price control below the free-market. And sure enough, this is what has happened. We must realize that all commercial airports in this country are government-owned and operated—all by local governments except Dulles and National, owned by the federal government. And governments are not interested, as is private enterprise, in rational pricing, that is, in a pricing that achieves the greatest profits. Other political considerations invariably take over. And so every airport charges fees for its "slots" (landing and takeoff spots on its runways) far below the market-clearing price that would be achieved under private ownership. Hence congestion occurs at valuable peak hours, with private corporate jets taking up space from which they would obviously be out-competed by the large commercial airliners. The only genuine solution to airport congestion is to impose market-clearing pricing, with far higher slot fees at peak than at non-peak hours. And this would accomplish the task while encouraging rather than

crippling competition by the compulsory rating of underpriced slots imposed by the FAA. But such rational pricing will only be achieved when airports are privatized—taken out of the inefficient and political control of government.

There is also another important area to be privatized. Air control services are a compulsory monopoly of the federal government, under the aegis of the FAA. Even though the FAA promised to be back to pre-strike air control capacity by 1983, it still employs 19% fewer air controllers than before the strike, all trying to handle 6% greater traffic.

Once again, the genuine solution is to privatize air-traffic control. There is no real reason why pilots, aircraft companies, and all other aspects of the airline industry can be private, but that somehow air control must always remain a nationalized service. Upon the privatization of air control, it will be possible to send the FAA to join the CAB in the forgotten scrap heap of history.

Privatization

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Privatization” is a new in-term, on local, state, and federal levels of government. Even functions that our civic textbooks tell us can only be performed by government, such as prisons, are being accomplished successfully, and far more efficiently, by private enterprise. For once, a fashionable concept contains a great deal of sense.

Privatization is a great and important good in itself. Another name for it is “desocialization.” Privatization is the reversal of the deadly socialist process that had been proceeding unchecked for almost a century. It has the great vir-